

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, February 17, 2006
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:37 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Keith Meredith, Chair
Mr. Karl Polen, Vice Chair
Mr. David Byers
Mr. Jaime Gutierrez
Mr. Chris Harris
Ms. Anne Mariucci
Mr. Michael Townsend
Mr. Lawrence Trachtenberg

Absent: Mr. Steven Zeman

A quorum was present for the purpose of conducting business.

2. Approval of the Consent Agenda

Motion: Mr. Karl Polen moved to approve Refunds, Death Benefits and Retirements;

And

Approve the System Transfers;

And

Approve the minutes of the December 17, 2005, Regular Meeting of the ASRS Board;

And

Approve the Applications and Agreements with the Following Employers;

- Maricopa Fire District
- Gila County Regional School District No. 49

Mr. Michael Townsend seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decisions Regarding Member Appeals

Motion: Mr. Dave Byers moved to accept the ruling of the Administrative Law Judge regarding Mr. Michael C. Rank.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Motion: Mr. Chris Harris moved to accept the ruling of the Administrative Law Judge regarding Ms. Jacqueline Taylor.

Mr. Jaime Gutierrez seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Motion: Mr. Dave Byers moved to reject Mr. J.W. Brantley's request for a rehearing.

Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Quarter Ending 12/31/05

Mr. Terry Dennison, Principal, Mercer Investment Consulting, presented an overview of the Total Fund performance for the period ending December 31, 2005, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending September 30, 2005.

	Quarter	1 Year	3 Years	5 Years	10 Years
Total Fund	2.3%	6.5%	14.0%	4.2%	8.9%
Benchmark*	2.1%	5.8%	12.9%	3.3%	7.6%
Excess Return	0.2%	0.7%	1.1%	0.9%	1.3%

*Interim Benchmark of 56% S&P 500/28% LB Aggregate/16% EAFE, which incorporates appropriation of 6% real estate.

5. Presentation, Discussion and Appropriate Action Regarding Byram Capital Management, U.S. SmallCap Core Manager

Mr. Larry Trachtenberg introduced Mr. Gary Dokes, Chief Investment Officer, to present information regarding the termination Byram Capital Management. Mr. Dokes stated that hearing that they were to be terminated at the February Board meeting, Byram Capital Management submitted their resignation. Mr. Dokes addressed the Board, stating that the Investment Committee (IC) recommends to the Board the approval of the following actions:

- Terminate Byram Capital as an ASRS U.S. Equity Small-Cap core investment manager.
- Transition assets of approximately \$240 million from Byram to Mellon Capital Management, ASRS U.S. Equity Small-Cap core passive portfolio.
- Maintain assets with Mellon Capital; final disposition will be consistent with the proposed 2006 ASRS Asset Allocation study decisions which will include, but not be limited to, ASRS Small Cap (and Mid-Cap) equity strategic and tactical sub-asset class decisions.

This recommendation is primarily based on the Investment Management Division's lack of confidence in Byram's ability to add alpha in the future. Specifically, concerns center on an assessment of their investment process, infrastructure issues and poor historical portfolio performance.

Motion: Mr. Larry Trachtenberg moved to accept the resignation of or to terminate Byram Capital as an ASRS U.S. Equity Small-Cap core investment manager, transition assets of approximately \$240 million from Byram to Mellon Capital Management, ASRS U.S. Equity Small-Cap core passive portfolio, and maintain assets with Mellon Capital; final disposition will be consistent with the proposed 2006 ASRS Asset Allocation study decisions which will include, but not be limited to, ASRS Small-Cap (and Mid-Cap) equity strategic and tactical sub-asset class decisions.

Mr. Jaime Gutierrez seconded the motion.

Mr. Karl Polen asked for discussion of this issue.

Ms. Anne Mariucci stated that she would like to make it clear in the motion that Byram Capital Management was terminated by the ASRS.

Mr. Trachtenberg stated that he wished to modify his motion to make clear that the ASRS will terminate Byram Capital.

Mr. Karl Polen stated that Seth Lynn of Byram has worked as a money manager for the ASRS for several years and over that time has made a lot of money for the plan. Mr. Polen asked if Mr. Lynn was attending the meeting via telephone and if he had any comments.

Mr. Lynn stated that felt that if, philosophically, the ASRS no longer agreed with the way Byram Capital management ran the money, there would be no problem parting ways. Mr. Lynn felt that Byram was denied the opportunity to explain its position and that the breakdown of communication caused him to submit his firm's resignation.

Mr. Dokes respectfully disagreed and explained that the ASRS had on several occasions met with Byram Capital to obtain any and all necessary information needed in order to make this decision.

Dr. Meredith called for a vote on the previously stated motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the U.S. SmallCap Equity Managers Reporting on the Quarter Ending 12/31/05

Mr. Gary Dokes, Mr. Terry Dennison, and Mr. Dan Kapanak presented the U.S. SmallCap Equity Managers Reporting for the quarter ending December 31, 2005.

As of December 31, 2005, the total market value of the ASRS SmallCap asset class was \$1.47 billion, or 6.3% of the ASRS total fund. The SmallCap asset class policy target/range is 5% +/- 1.5%.

As a result of the SmallCap growth manager search conducted during the second half of 2004, IMD hired Batterymarch Financial Management on December 31, 2004, and TimesSquare Capital Management on March 31, 2005. Assets were subsequently transitioned from the BGI Russell 2000 Growth Index Fund, the interim manager for the former Columbia Management Company assets.

Byram Capital Management underperformed its benchmark and the universe median for all periods except five years. For five years, the portfolio was above the index and placed in the top decile of the universe. Since inception, Byram outperformed the index. Byram's asset growth and investment process over the more recent periods are of notable concern. Organizational infrastructure and investment process are viewed as simplistic relative to other institutionally-based money managers. Mercer rates this product B (average probability of out performance).

Attribution Analysis for period ending December 31, 2005:

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	-1.8%	-5.0%	-0.7%	11.1%	6.5%
Sector Selection	0.1%	0.0%	0.1%	0.1%	0.0%
Other	0.0%	-0.2%	-0.5%	-3.3%	-1.0%
Fees	-0.1%	-0.5%	-0.3%	-0.3%	-0.2%
Excess Return	-1.8%	-5.7%	-1.4%	7.6%	5.3%

Batterymarch Financial Management matched or underperformed the index and placed in the bottom quartile of the universe for the recent quarter and nine months. Performance history is too short to make a recommendation at this time. There are no organizational concerns at this time and Mercer rates this product A (above average probability of out performance).

Attribution Analysis for period ending December 31, 2006:

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	-0.6%	---	---	---	-3.1%
Sector Selection	-0.2%	---	---	---	2.6%
Other	-0.1%	---	---	---	0.0%
Fees	-0.2%	---	---	---	-0.7%
Excess Return	-1.1%	---	---	---	-1.2%

Times Square Capital Management outperformed its benchmark for all periods evaluated and there are no organizational concerns at this time. Mercer rates this product A (above average probability of out performance).

Attribution Analysis for period ending December 31, 2006:

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	0.6%	---	---	---	3.4%
Sector Selection	-0.1%	---	---	---	-1.0%
Other	0.1%	---	---	---	0.2%
Fees	-0.2%	---	---	---	-0.5%
Excess Return	0.4%	---	---	---	2.1%

Dimensional Fund Advisors (DFA) outperformed its benchmark for all periods evaluated. On December 31, 2005, Jeanne and Rex Sinquefeld, members of the DFA Investment Committee, retired from DFA. Stephen Clark was named chairman of the Investment Committee. Additionally, DFA is establishing five senior portfolio manager roles arranged by market and geography. Mercer rates this product B (average probability of out performance).

Attribution Analysis for period ending December 31, 2005:

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	1.1%	3.8%	4.0%	3.0%	2.7%
Sector Selection	0.6%	0.9%	1.5%	-0.5%	0.0%
Other	0.1%	-0.2%	-0.2%	0.1%	0.1%
Fees	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%
Excess Return	1.7%	4.3%	5.1%	2.4%	2.6%

Mellon Capital Management is tracking the Russell 2000 Index closely for all periods evaluated. There are no organizational concerns at this time. Mercer does not rate this product.

7. Presentation, Discussion and Appropriate Action Regarding Changes to the Refund of Employer Contributions to Pre-retired Members and other 2006 ASRS Legislation

Mr. Pat Klein, Assistant Director, External Affairs, presented the current status of ASRS legislative initiatives and other bills affecting the ASRS. Mr. Klein provided information regarding House Bill 2101 – ASRS; Terminated Employees; Contribution Refunds. Mr. Klein explained that the bill, as worded, would only affect future employees and not current employees. Upon further research by Mr. Paul Matson, Director, and Dr. Keith Meredith, Board Chair, it was determined that there was a certain aspect of that particular motion, contained in the backup materials, that also affected current employees.

Mr. Klein explained that the first part of the motion, affecting future employees, is already progressing through the legislature. To address the issue of current employees, ASRS will either have to go back through the legislature to amend this bill or to use a striker on another bill to include language that would clarify that the bill was intended to affect current employees. Mr. Klein will discuss the board's

concerns with Representative Marian McClure, the bill's sponsor, to determine the most favorable approach.

Mr. Klein also addressed SB 1167 – ASRS; Optional Forms of Retirement. Mr. Dave Byers asked if this Bill will affect current retirees. Mr. Klein stated that the wording within the Bill is silent in terms of who it affects. Mr. Tom McClory, Assistant Attorney General, stated that in the absence of such clarifying language it may still be his opinion that the Bill will not affect current retirees. Mr. Paul Matson added that it was never the intent of the ASRS or the Board for this Bill to affect current retirees. Mr. Byers and Mr. Jaime Gutierrez suggested that the wording be modified to clarify who the Bill will affect. Mr. Matson agreed that that would be done.

Mr. Klein also provided updates regarding HB 2082, HB 2103, HB 2104, HB 2105, HB 2335, HB 2340, HB 2390, HB 2845 and SB 1169.

Dr. Robert Letson, Retiree, addressed the Board regarding HB 2101 and SB 1167. Dr. Letson expressed his concern regarding these Bills noting that in his opinion they may be unlawful due to their apparent change to member benefits.

Dr. Keith Meredith stated that the Board is well aware of the concerns Dr. Letson expressed. The main concerns of the ASRS are the benefits of all the members as well as the viability of the System long term.

8. Presentation, Discussion and Appropriate Action Regarding the Review of the 2005 Strategic Initiatives of the ASRS

Mr. Paul Matson discussed the 2005 Strategic Initiatives of the ASRS noting key goals, their individual success criteria, and an update as to each item's progress.

<u>Major Programs</u>			
Issue Area	Key Goals	Success Criteria	Status Update
Agency Governance	<ul style="list-style-type: none"> • Handbook Requirements Achieved • Efficient Governance Structure Enabled 	<ul style="list-style-type: none"> ➤ Governance Handbook Requirements Achieved ➤ Modify Handbook to Reflect Recommended Changes ➤ Trustee's Discretion 	<ul style="list-style-type: none"> ➤ Achieved ➤ Achieved ➤ Trustees Discretion
Strategic Plan	<ul style="list-style-type: none"> • Update • Modify 	<ul style="list-style-type: none"> ➤ Strategic Plan is Updated and Modified, Including Revised Goals ➤ Consideration and Analysis is Provided for Findings from the Auditor General's Review 	<ul style="list-style-type: none"> ➤ Achieved February 17, 2006 ➤ Achieved September 15, 2005
Defined Benefit Plan Review	<ul style="list-style-type: none"> • Mitigate Future Contribution Rate Increases 	<ul style="list-style-type: none"> ➤ Presentation to The Board on Actuarial or Program Modifications that Further Mitigate Contribution Rate Increases 	<ul style="list-style-type: none"> ➤ Achieved February 17, 2006

Hybrid "System" (the "System")	<ul style="list-style-type: none"> • Plan of Action to Reduce Underfunding Risks 	<ul style="list-style-type: none"> ➤ Plan Developed ➤ Board Approves ➤ Staff Moves Towards Implementation 	<ul style="list-style-type: none"> ➤ Work in Process ➤ Expected March 2006 ➤ Expected March 2006
		<ul style="list-style-type: none"> ➤ Implementation Not Required 	
Long Term Disability Program	<ul style="list-style-type: none"> • Review Actuarial Methodology Per Audit • Recommend / Implement Prudent Changes 	<ul style="list-style-type: none"> ➤ Recommendations Made to OC and to Board ➤ Board Accepts Addresses Current Method vs. Audit Issues 	<ul style="list-style-type: none"> ➤ Achieved 2005 ➤ Achieved 2005
Health Insurance	<ul style="list-style-type: none"> • Determine Future Options 	<ul style="list-style-type: none"> ➤ Further Analysis Conducted ➤ Recommended Changes Determined 	<ul style="list-style-type: none"> ➤ Continuous Analysis ➤ Rural Network Expanded December 2005 ➤ Some problems with Medicare Part D Implementation
Supplemental Retirement Savings Plan	<ul style="list-style-type: none"> • Coordinate State Programs • Determine Investment Options • Determine Structural Parameters • Determine Roll Out 	<ul style="list-style-type: none"> ➤ Revised Plan Document Presented to Board ➤ Plan Accepted by Board ➤ Roll Out Occurs if Prudent 	<ul style="list-style-type: none"> ➤ Subject to Repeal of DROP
Deferred Retirement Option Plan (DROP)	<ul style="list-style-type: none"> • Review Legal Issues • Review Affect on Contribution Rates • Determine if Roll Out is Prudent 	<ul style="list-style-type: none"> ➤ Decision on Program Direction 	<ul style="list-style-type: none"> ➤ Achieved October 2005
Long-term Implications of Defined Benefit Plan	<ul style="list-style-type: none"> • Develop a High-level White Paper that Informs Policy Makers of the Long-term Implications of the Structure of the ASRS Defined Benefit Plan and Identifies Possible Alternatives 	<ul style="list-style-type: none"> ➤ Paper Developed and Accepted by Board 	<ul style="list-style-type: none"> ➤ Expected April 2006

Capabilities

Issue Area	Key Goals	Success Criteria	Status Update
Securities Litigation	<ul style="list-style-type: none"> • Implement Infrastructure 	<ul style="list-style-type: none"> ➤ Board Decision ➤ Required Infrastructure Implemented 	<ul style="list-style-type: none"> ➤ Achieved December 2005 ➤ [Feb 2006 pending Attorney General Authorization]
Real Estate Investment Program	<ul style="list-style-type: none"> • Initial Funding of Four Core Strategies 	<ul style="list-style-type: none"> ➤ Required Infrastructure Implemented 	<ul style="list-style-type: none"> ➤ 34% Completed ➤ 13% Funded
		<ul style="list-style-type: none"> ➤ Initial Four Phases of Funding Occurs 	<ul style="list-style-type: none"> ➤ Work in Process ➤ Infrastructure Re-Design

Investment Strategic Analysis Session	<ul style="list-style-type: none"> Engage Trustees and Staff on Current Issues 	<ul style="list-style-type: none"> Session Occurs Topics Covered: Portable Alpha, New Asset Classes, Manager Selection, Other Appropriate Decisions Made 	<ul style="list-style-type: none"> Achieved April 2005
Securities Lending	<ul style="list-style-type: none"> Review and Modify if Appropriate 	<ul style="list-style-type: none"> Analysis Completed Recommended Changes Implemented 	<ul style="list-style-type: none"> Achieved October 4, 2005
Investment Business Continuation Plan	<ul style="list-style-type: none"> Live Offsite Test 	<ul style="list-style-type: none"> Plan Tested, Documented, Reviewed 	<ul style="list-style-type: none"> Achieved April 5, 2005
Agency Business Continuation Plan	<ul style="list-style-type: none"> Execute Alert Roster Live Offsite Test of Call Center, PERIS, Procurement, Workflow Applications, Email, Financial Management, Document Imaging, Employer Relations, Public Relations 	<ul style="list-style-type: none"> Plan Tested, Documented, Reviewed 	<ul style="list-style-type: none"> Achieved November 2005

Service

Issue Area	Key Goals	Success Criteria	Status Update
Service Requests	<ul style="list-style-type: none"> Reduce Service Purchase Wait to Two Months even Without Budget Assistance Distribute Member Annual Statements by November 1 	<ul style="list-style-type: none"> Wait Time Reduced to Two Months Annual Statements Mailed by November 1 	<ul style="list-style-type: none"> Achieved Achieved
Information Technology Projects	<ul style="list-style-type: none"> Review Status of Projects Review Tactical and Strategic Directions Evaluate Future Options Proceed with Implementation or Other Solutions 	<ul style="list-style-type: none"> Review Committee Concludes Conclusions Documented Decisions Implemented 	<ul style="list-style-type: none"> Achieved first quarter 2005 Achieved second quarter 2005 Achieved July 2005
External Relationships	<ul style="list-style-type: none"> Maintain / Enhance Relationships With Related Executive Branch Agencies, the Legislature, Employers, Other Entities 	<ul style="list-style-type: none"> Trustee's Discretion 	<ul style="list-style-type: none"> Trustee's Discretion

Annual responsibilities listed in Board Governance Policy Handbook:

Board Responsibility	February 2006 Status
Review Governance Handbook	December 2005 Board Meeting
Select and oversee the performance of the following outside service providers: a. Consulting actuaries and actuarial auditors b. External financial auditor c. Investment consultants d. Investment Managers e. Insurance and third-party administration providers for health and long-term benefits	a. Statewide consulting actuary RFP issued and proposals are due 02/15/06 b. Statewide auditing RFP to be issued pending Auditor General review. c. Inv. Consultant contracts expire 01/09. d. Inv. Manager searches ongoing. e. Medical Ins. completed in 05; LTD TPA RFP to be issued in 06.
Conduct an annual actuarial valuation	Presented to Board: <ul style="list-style-type: none"> • System – 09/05 • Plan – 11/05 • LTD – 11/05
Conduct an actuarial experience investigation study every five years	Next study to be conducted in 2007
Review, approve and monitor the budget and budget change proposals	FY07 Budget reviewed at 01/05, 03/05, 05/05 and 07/05 OC meeting. FY07 Budget approved at 08/05 Board meeting.
Conduct an independent third-party audit of the actuarial funding of the ASRS benefits every five years	To be completed in 2009.
Adopt an annual schedule identifying the time and location of regular board meetings	Completed at October 05 Board meeting.
Conduct a self evaluation in the first quarter of each calendar year, preceding the Director's evaluation	Materials handed out at December 2005 Board meeting. Materials reviewed at February 2006 Board meeting.
Board working with the Director will adopt a set of strategic initiatives and evaluation criteria for the Director	February 2006 Board meeting.
Evaluate the Director within the first quarter of the calendar year after the Board's self evaluation	Scheduled for March 2006
Committee Responsibility	February 2006 Status
Review controls over ASRS information systems, including security, program change controls, disaster recovery, and other contingency plans and report finding and recommendations to Board (OC)	IT Plan reports at 01/05, 03/05, 05/05, 09/05, 01/06 OC meetings. Business Continuity Plan reports at 05/05 and 01/06 OC meetings. Data Quality Audit 01/06 OC meeting Internal Audit Risk Assessments at 03/05 and 05/05 OC meetings
Review investment consultant performance and report to the Board (IC)	Continuous

Director Responsibility	Current
Perform annual performance evaluations of those in direct reporting relationship	Completed December 2005
Prepare the ASRS comprehensive annual financial report	Completed November 2005
Arrange for an annual fiduciary education session for the Board	Completed 04/15/05 Planned for 04/15/06

9. Presentation, Discussion and Appropriate Action Regarding the 2006 Strategic Initiatives

Mr. Paul Matson presented the proposed 2006 Strategic Initiatives of the ASRS.

ASRS 2006 Strategic Initiatives		
Initiative		Criteria
1	Agency Governance	<ul style="list-style-type: none"> ▪ Handbook Requirements Achieved ▪ Prudent Handbook Modifications Recommended ▪ Prudent Handbook Modifications Implemented ▪ Efficient Governance and Management Enabled ▪ Efficient Governance and Management Promoted
2	Retain Trustee and Executive Focus on Strategic Issues	<ul style="list-style-type: none"> ▪ Prudent Delegations Enhanced ▪ Focus on Oversight and Forward Thinking
3	Enhance Leadership Role: Pension Plan, Health Insurance Plan, and LTD Plan	<ul style="list-style-type: none"> ▪ Mitigate Contribution Rate Increases ▪ Increase Fiscal Stability ▪ Ensure Plan Viability ▪ Ensure Plan Longevity
4	Pension Plan Design Review	<ul style="list-style-type: none"> ▪ Engagement of Governor's Office, Legislature, Membership, Groups, Associations ▪ Options Provided to Policy Makers
5	Hybrid "System"	<ul style="list-style-type: none"> ▪ Options Determined ▪ Mitigate Benefit Reduction Risk ▪ Required Implementations Completed
6	Total Fund Investment Review	<ul style="list-style-type: none"> ▪ Asset Allocation Study Completed ▪ Prudent New Asset Classes Implemented ▪ Prudent New Investment Strategies Implemented
7	Investment Culture	<ul style="list-style-type: none"> ▪ Invigorate Idea Generation ▪ Encourage Idea Conviction ▪ Expect Idea Champions and Subject Matter Experts ▪ Support Actionable Implementation
8	Real Estate Program	<ul style="list-style-type: none"> ▪ Modify Infrastructure ▪ Implement Tactical Decision Making ▪ Focus on Action Over Process ▪ Expect Innovation

9	Effective Completion of Key Information Technology Projects	<ul style="list-style-type: none"> ▪ On-Line WEB Service Access ▪ Long Term Disability ▪ FileNet Workflow ▪ Forfeitures and Disbursements ▪ Financial Management System ▪ Benefit Estimates ▪ Online Contribution Posting ▪ New Retirees ▪ Survivor Benefits
10	Supplemental Retirement Savings Plan (SRSP)	<ul style="list-style-type: none"> ▪ Determine Vendor Relationships ▪ Disseminate SRSP Roll Out ▪ Implement SRSP Program Pending DROP Repeal

Motion: Mr. Michael Townsend moved to accept the proposed 2006 Strategic Initiatives.

Mr. Larry Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

10. Presentation, Discussion and Appropriate Action Regarding the ASRS Strategic Plan

Mr. Paul Matson addressed the Board regarding the ASRS Strategic Plan. Mr. Matson stated that in 2004, the agency adopted a Vision and Values statement for the agency. As a continuation of that effort, in 2005 the staff's Strategic Plan was reviewed for updates to agency goals and objectives and to include newly adopted Investment Principles and a description of the Strategic Planning Schematic utilized by the agency. The first draft of the Plan was presented to the Board in December 2005. Furthermore, the Board's three Committees each met in January and February 2006 to discuss and recommend changes to the proposed Plan.

Mr. Karl Polen left the meeting at 10:45 a.m.

The aim of the Plan is to institute a dynamic, forward-looking planning and implementation process. The Plan's thirteen goals identify specific levels of achievement the ASRS will strive for to ensure it remains a strong and vital public entity. Its objectives define high but realistic standards of performance to measure the agency's progress toward meeting the goals. The document was prepared by the agency's executive staff and managers utilizing direct member feedback, satisfaction surveys, member outreach programs, input from member, employer and stakeholder networks, staff analysis, reports, and known best practices.

To make the Plan actionable, the agency must ensure that its governance practices provide the necessary oversight of operations and properly address strategic issues that are identified. Additionally, the agency must continue its commitment to monitoring, analyzing and reporting challenges and performance. An adequate appropriated budget and a competent professional staff are likewise critical to executing the Plan successfully.

Mr. Matson stated that he would periodically report ongoing progress during scheduled Board meetings as part of the monthly Director's Report and that Executive Staff and management would provide updates during Committee meetings.

The Strategic Plan as a whole should be reviewed yearly by the Board to assess progress and also to recommend necessary updates to goals and objectives. At the end of the three-year period, the entire Plan will once again be reviewed and updated to encapsulate the goals of the agency for the next three-year period.

Motion: Mr. Michael Townsend moved to adopt the proposed plan.

Mr. Dave Byers seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

Ms. Anne Mariucci left the meeting at 10:48 a.m.

Mr. Karl Polen returned to the meeting at 11:10 a.m.

11. Presentation, Discussion and Appropriate Action Regarding the Review, Analysis and Implications of the Defined Benefit Plan

Mr. Paul Matson explained that the purpose of this presentation is to provide the ASRS with an independent review of the major current structural issues with respect to the defined benefit plan. In addition, a simulation analysis is currently underway and expected to be completed by March 31, 2006. The purpose of the simulation analysis is to determine the long-term funded status and contribution rate impact of the current plan design and modifications to the current plan design.

Mr. Matson stated that the purpose of this report is to provide the ASRS with an independent review of the major current structural issues with respect to the defined benefit plan. A third party firm (not the current ASRS actuary) was specifically engaged for this report in order to ensure that a fresh, independent review occurred. The purpose of the document is to develop a platform from which the ASRS can engage in dialogue and analysis with respect to structure and design issues of the ASRS' defined benefit plan.

Mr. Matson introduced Mr. Bill Hallmark, Consulting Actuary and Principal, Mercer Human Resource Consulting. Mr. Hallmark explained that the Plan Design Review was created with the objectives of understanding the current plan design and identifying potential changes that could occur within the context of mitigating future contribution rate increases, ensuring fiscal integrity of the plan, and ensuring the longevity and continuity of the plan.

Mr. Matson stated that as a follow up to the Plan Design Review he has engaged the current ASRS actuary to conduct a long-term simulation analysis that will enable the ASRS to determine 30-year projections of contribution rates, market value funded status and actuarial funded status as a function of potential plan design modifications.

Mr. Dave Byers expressed some concern regarding the wording in the draft report. At times the report seems to be a recommendation to the ASRS as opposed to various scenarios to be used as reference tools. Mr. Byers stated that members may develop unnecessary concerns when reading the report by misunderstanding the intent. Mr. Matson agreed that clarifying language should be added to the report to avoid any confusion.

12. Director's Report

Mr. Paul Matson addressed the Board regarding the Public Pension Coordinating Council (PPCC) Award. Mr. Matson explained that the PPCC is a coalition of three associations that represent public pension funds which cover the majority of public employees in the U.S. The associations are the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

This is the third year the PPCC has offered the PPCC Standards Award Program to public retirement systems. The Public Pension standards are intended to reflect baseline expectations of public retirement system management and administration, as well as serve as a benchmark by which all public defined benefit plans should be measured.

Ms. Susanne Dobel, External Affairs Manager, submitted the ASRS to receive certification from the PPCC as it relates to public pension system management and administration.

Ms. Dobel submitted a wealth of information on the agency, specifically how it operates and the benefits it provides and answered detailed questions on plan and agency administration and management.

Mr. Matson expressed special thanks to Ms. Dobel for her knowledge, her insight and her professionalism and, by extension, to this agency for its commitment to serving its members in a professional and compassionate manner.

Mr. Matson also addressed the Board regarding retiree health insurance implementation problems. PacifiCare and Medicare (Centers for Medicare and Medicaid Services – CMS) experienced several administrative problems beginning January 1, 2006, associated with the implementation of PacifiCare's Secure Horizons Direct plan and Medicare's new Part D prescription drug plan respectively.

PacifiCare's Senior Supplement medical plan changed its name to The Secure Horizons Direct Plan on January 1, 2006, to take advantage of improved prescription drug coverage offered by Medicare's new Part D program. This new medical plan not only improved prescription drug coverage, it also changed, for the better, the way physicians and other providers are paid for their services. These changes, coupled with Medicare's untested administrative efforts at implementing their new Part D program, caused severe problems for our retirees resulting in anxious, concerned, frustrated and confused retirees not fully understanding how the changes affected them.

Mr. Matson explained that by the end of January 2006, the severity of the problems had abated significantly due to the communications and outreach campaigns begun by PacifiCare at the request of the ASRS.

Mr. Bill Peltier, retiree, addressed the Board regarding the health insurance issues. He stated that he knew of people directly affected by these problems and wants to make sure they are fully resolved.

Dr. Robert Letson, retiree, also addressed the Board regarding the health insurance issue, expressing similar concerns.

Mr. Paul Matson asked Mr. Anthony Guarino to address the Board regarding inactive member accounts. Mr. Guarino stated that a review of a data quality audit at the most recent Operations Committee (OC) meeting of January 26, highlighted issues and efforts underway regarding the management, maintenance and disposition of the agency's 150,000 dormant or inactive member accounts. Although the responsibility of the member, the ASRS has organized project teams and begun implementing the policies, procedures controls, technology, and clean-up efforts needed to more effectively manage inactive member accounts.

A recent audit illustrated both the progress the ASRS is making, as well as the challenges the ASRS faces. As an example, Mr. Guarino noted that staff identified and is currently addressing policy and data issues related to inactive accounts of members over the age of 70½. Approximately 650 members who comprise this group (members who are either deceased or not currently working for an ASRS employer) were responsible for claiming their benefit or be subject to tax penalties. Existing controls and procedures proved insufficient in reminding members to initiate action, and staff is working to minimize the impact on affected members and prevent future occurrences.

Mr. Guarino explained that as work in this and related areas moves ahead, issues and status reports will be made by management and reviewed by the OC to insure that strategic objectives are met in a timely fashion. Reports to the full Board will be made at the discretion of the OC, Director, or at the request of the Board.

13. Possible Presentation Regarding Board Committee Updates

Mr. Jaime Gutierrez, Chair, External Affairs Committee stated that the next External Affairs Committee meeting will Friday, March 3, 2006.

Mr. Larry Trachtenberg, Chair, Investment Committee, stated that upcoming issues include Strategic Asset review and getting the Real Estate program caught up. The next Investment Committee meeting will be Wednesday, April 5, 2006.

Mr. Michael Townsend, Chair, Operations Committee, stated that the next Operations Committee meeting will be Thursday, March 23, 2006

14. Board Requests for Agenda Items

There were no requests for agenda items.

15. Call to the Public

No members of the public requested to speak.

16. The next ASRS Board meeting is scheduled for Friday, March 17, 2006, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

17. Adjournment of the ASRS Board

Dr. Meredith adjourned the February 17, 2006 Board meeting at 12:20 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Schrode, Secretary

Date

Paul Matson, Director

Date